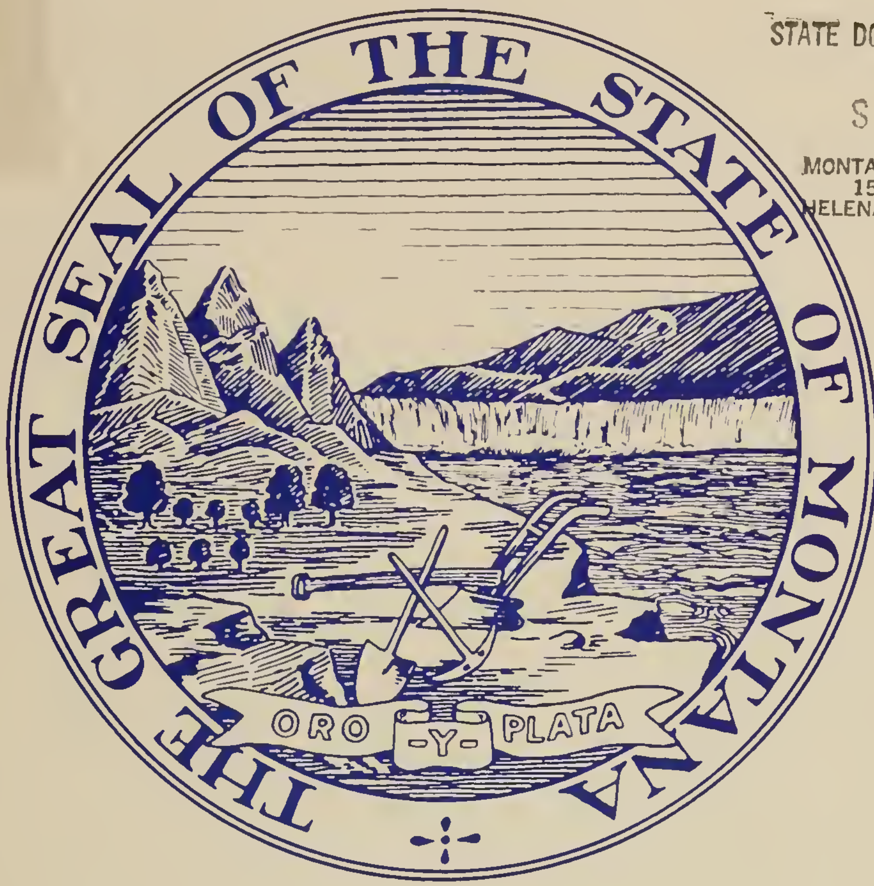
Governor's Executive Budget

Fiscal Years 1992-1993

July 1992 Special Session II

Stan Stephens, Governor
State of Montana



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Stan Stephens, Governor
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STAN STEPHENS
GOVERNOR

State of Montana
Office of the Governor
Helena, Montana 59620
406-444-3111

June 21, 1992

Honorable President and Members of the Senate
Honorable Speaker and Members of the House

Honored Members:

In accordance with Article VI, Section 9, of the Constitution of Montana, I am hereby transmitting to you my proposal to restore balance to the state general fund and to address the cash imbalance which also confronts our state.

This Executive Budget proposal relies on a mix of expenditure reductions, funding switches, revenue increases, fund balance transfers and other important recommendations regarding agency management which are critical to the success of the entire plan.

It has taken the extraordinary efforts of many people in the executive and legislative branches to bring this proposal, and this session, together so expeditiously. I am certain that every one of them is unified in one goal: harmonious effort and thorough consideration of all proposals brought forward, resulting in a succinct, successful session. The very serious difficulty of these times demands this type of cooperation, which you will have from my office and all of the agencies. Best wishes.

Sincerely,

STAN STEPHENS
Governor

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Curt Nichols, Deputy Budget Director

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* Contract Staff from Management Solutions due to prior budget reductions.

INTRODUCTION

Executive Budget Recommendations

The Executive Budget recommendations contained in this brief document for Special Session II total $115.8 million and are designed not only to eliminate our state cash and fund balance deficit problems, but also to begin the long road back to financial stability by lessening our cash flow valleys and creating a general fund stabilization account. Legislation is recommended to place $18.9 million from the parks and arts trusts, plus general fund equal to revenue accruals, into this stabilization account to increase borrowable reserves and help resolve concerns expressed by the rating agencies regarding failure of the state to maintain adequate balances.

For more than a decade the State of Montana biennial budgets have depended upon issuance of tax and revenue anticipation notes (TRANs) to provide cash to meet appropriated expenditures during parts of the year when cash flow out (expenditures) exceeded cash flow in (tax receipts). This practice will not be ended by actions of this special session or of the Fifty-third Legislature, but together the Governor and the Legislature must resolve to take a beginning step towards managing cash in a way that reduces the level of dependency upon TRANs borrowing and assures holders of those notes that the state has the cash to redeem the notes when due.

Recommendations are organized in six areas:

1. **Expenditure Reductions - $39.6 million - 34% of the total plan.**

   Expenditure reductions include $9.1 million from HB2 general fund appropriations in a recommended plan of 8% across-the-board cuts to the "fully-funded" operating budgets adopted by the 1991 Legislature, $14.1 million from a 4% reduction in school foundation payments, $5.4 million of unbudgeted university system tuition revenue, $3.7 million from eliminating state retiree supplements, $2 million from liquor store conversion, $1.6 million from reforming Montana's welfare system, $1.5 million from postponing planning for the two new Montana University System buildings, $1.5 million from service improvements at Galen, and $0.7 million from changing special education transportation statute and rules.

2. **Funding Switch - $19.1 million - 16% of the total plan.**

   The one funding switch for personal property tax reimbursement is related to the video gaming tax increase, immediately below, which enables the amount allocated to local governments to be maintained, while generating increased general fund revenue.

3. **Revenue Enhancements - $22.7 million - 20% of the total plan.**

   A video gaming tax increase to 35%, consistent with South Dakota and more in line with other states and maritime provinces, is recommended to generate $16.6 million additional general fund revenue in FY93 and future years. Health care cost control, improved access and planning are addressed by legislation to enact a 2% gross receipts tax on Montana hospitals to begin December 1, 1992, with related services improvements and appropriations, for a net revenue increase of $6.1 million in FY93.

4. **General Fund Stabilization Account - $16.9 million - 15% of the total plan.**

A general fund stabilization account is created using parks and arts trust balances, while holding the affected programs harmless, and using such amount from the general fund as necessary to establish the balance of the account equal to the additional general fund and school equalization account revenue resulting from full accrual. In addition to the $16.9 million of general fund, it is proposed the stabilization account balance will be $42.5 million.

5. **Cash Management - $17.5 million - 15% of the total plan.**

A minimum $17.5 million is added to general fund cash received during the current fiscal year by moving property tax payments to May 25 and November 25 and by changing the public school foundation payment schedules. The latter action also addresses cash flow during the 1993 and future biennia. Executive support for legislative action to restore the Governor's authority to make budget reductions is an additional cash management component.

6. **State and Agency Management - Enabling portion of the plan.**

Three primary areas are identified as critical to the ability of the state as a whole and individual agencies to cope with the adjustments required by the fiscal situation: (1) four amendments to the General Appropriations Act HB2 boilerplate and related flexibility in specific line-item restrictions to provide agency management responsibility and flexibility; (2) a resolution that the state complete its transition to full accrual of revenue, and (3) appropriation authority from the general fund stabilization account for the Office of Budget and Program Planning to approve payment of any extraordinary fire suppression costs this fall that may exceed the ability of the Department of State Lands ability to absorb until action by the Fifty-third Legislature.

GENERAL FUND AND SCHOOL EQUALIZATION ACCOUNT REVENUE SHORTFALLS

In May 1992, the OBPP and LFA staff became alarmed that the 1991 individual income tax collections were falling short of the level assumed in HJR 1. Upon further review, OBPP expects FY92 revenue shortfalls of $19.9 million for the state general fund and $9.5 million for the school equalization account.

The majority of the revenue shortfall, approximately $21 million, is attributable to lower than anticipated individual income tax collections. At this time it appears the shortfall is due to a combination of overstated assumptions about the growth in non-wage and salary income, anticipated audit collections, and estimated impacts of legislation enacted by the 1991 Legislature.

The other major factors contributing to the lower collections in FY92 include shortfalls in interest earnings, namely earnings from the coal trust and treasury cash account (TCA), in the metal mines tax and in the "other" revenue category. Interest earnings continue to suffer from lower interest rates and investible balances than assumed in HJR 1. Gold prices that are currently about $70 per ounce lower than the level assumed in HJR 1 were a major factor in the lower metal mines collections.

Since none of the factors causing the FY92 revenue shortfall are due to one-time events, FY93 revenues also must be revised. The following tables provide a comparison of the OBPP Executive Budget revisions with the levels assumed in HJR 1.

General Fund Revenue Comparison

	FISCAL YEAR 1992			FISCAL YEAR 1993		
Revenue Category	Revised Estimate	HJR 1 Estimated Receipts	Difference	Revised Estimate	HJR 1 Estimated Receipts	Difference
Drivers License Fee	1,693,000	1,571,000	122,000	1,699,000	1,577,000	122,000
Insurance Tax	17,784,000	18,518,000	(734,000)	18,722,000	17,885,000	837,000
Vehicle Registration Fee	9,772,000	7,882,000	1,890,000	9,988,000	8,056,000	1,932,000
Vehicle License Fee	2,974,000	2,710,000	264,000	3,052,000	2,781,000	271,000
Poker License Fee	7,785,000	6,973,000	812,000	9,226,000	7,448,000	1,778,000
Beer Tax	1,336,000	1,272,000	64,000	1,344,000	1,280,000	64,000
Coal Severance Tax	7,212,000	6,086,000	1,126,000	12,367,000	10,436,000	1,931,000
Corporation Tax	32,668,000	32,517,000	151,000	38,886,000	37,190,000	1,696,000
Electrical Energy Tax	4,432,000	4,239,000	193,000	4,434,000	4,241,000	193,000
Freight Line Tax	1,272,000	1,197,000	75,000	1,268,000	1,193,000	75,000
Individual Income Tax	185,165,000	199,084,000	(13,919,000)	206,304,000	225,066,000	(18,762,000)
Inheritance Tax	10,817,000	9,704,000	1,113,000	11,112,000	9,969,000	1,143,000
Metal Mines Tax	3,623,000	4,661,000	(1,038,000)	3,467,000	4,460,000	(993,000)
Natural Gas Severance Tax	1,112,000	1,634,000	(522,000)	1,236,000	1,816,000	(580,000)
Oil Severance Tax	16,323,000	16,466,000	(143,000)	15,770,000	15,908,000	(138,000)
Telephone Tax	3,964,000	4,009,000	(45,000)	4,276,000	4,325,000	(49,000)
Wine Tax	813,000	785,000	28,000	794,000	766,000	28,000
Institution Reimbursements	15,220,000	14,447,000	773,000	14,561,000	13,821,000	740,000
TCA Interest Earnings	15,842,000	17,660,000	(1,818,000)	19,481,000	21,717,000	(2,236,000)
Liquor Excise Tax	6,172,000	5,710,000	462,000	6,152,000	5,691,000	461,000
Liquor Profits	5,363,000	5,363,000	0	4,301,000	4,301,000	0
Coal Trust Interest Earnings	39,335,000	43,103,000	(3,768,000)	40,325,000	44,188,000	(3,863,000)
Long Range Bond Excess	41,323,000	42,551,000	(1,228,000)	45,132,000	46,890,000	(1,758,000)
Other Revenue	19,004,000	22,753,000	(3,749,000)	19,464,000	23,304,000	(3,840,000)
Total	**451,004,000**	**470,895,000**	**(19,891,000)**	**493,361,000**	**514,309,000**	**(20,948,000)**

School Equalization Account Revenue Comparison

	FISCAL YEAR 1992			FISCAL YEAR 1993		
		HJR 1			HJR 1	
	Revised	Estimated		Revised	Estimated	
Revenue Category	Estimate	Receipts	Difference	Estimate	Receipts	Difference
State Equalization						
Coal Severance Tax	5,343,000	4,508,000	835,000	5,148,000	4,344,000	804,000
Corporation Tax	15,263,000	15,193,000	70,000	18,167,000	17,376,000	791,000
Individual Income Tax	84,152,000	90,349,000	(6,197,000)	93,760,000	102,140,000	(8,380,000)
Statewide Levy	63,003,000	63,003,000	0	64,161,000	64,161,000	0
SEA Interest Earnings	84,000	290,000	(206,000)	0	0	0
Interest & Income	39,397,000	39,397,000	0	41,933,000	41,933,000	0
Coal Trust Interest Earnings	6,941,000	7,606,000	(665,000)	7,116,000	7,798,000	(682,000)
Lottery Revenue	6,324,000	5,025,000	1,299,000	6,353,000	5,048,000	1,305,000
Education Trust Interest	0	554,000	(554,000)	2,244,000	1,690,000	554,000
U.S. Mineral Leasing	21,840,000	25,005,000	(3,165,000)	21,307,000	24,395,000	(3,088,000)
Miscellaneous	14,937,000	14,937,000	0	8,838,000	8,838,000	0
Total State	**257,284,000**	**265,867,000**	**(8,583,000)**	**269,027,000**	**277,723,000**	**(8,696,000)**
County Equalization						
County 55 mill levy	86,513,000	86,513,000	0	88,104,000	88,104,000	0
High School Tuition	(993,000)	(993,000)	0	(899,000)	(899,000)	0
Forest Funds	1,744,000	1,744,000	0	1,409,000	1,409,000	0
Taylor Grazing	119,000	119,000	0	114,000	114,000	0
Miscellaneous	25,282,000	25,282,000	0	20,618,000	20,618,000	0
County Equal Shortfall	(2,000,000)	(1,125,000)	(875,000)	(2,000,000)	(1,125,000)	(875,000)
Total County	**110,665,000**	**111,540,000**	**(875,000)**	**107,346,000**	**108,221,000**	**(875,000)**
Total Equalization Rev	**367,949,000**	**377,407,000**	**(9,458,000)**	**376,373,000**	**385,944,000**	**(9,571,000)**

The major revenue shortfalls in school equalization revenue relate to individual income tax, coal trust interest, U.S. mineral leasing, and county equalization. These are offset by increases in coal severance tax and lottery revenue. The general fund discussion on the previous page discusses the results as they relate to individual income tax and coal trust interest earnings.

Lottery revenues are increased based upon the performance to date of the Lottery in FY92. It appears increased ticket sales will allow a transfer to the equalization account of $6.324 million in FY92. OBPP expects that level to continue in FY93.

Mineral leasing revenues in FY91 were $3.5 million below the level estimated in HJR 24 of the 1991 Regular Session. The FY92 and FY93 estimates were not adjusted downward in Special Session I due to high levels of collection early in FY92. However, in the remainder of FY92 revenues have dropped off significantly and appear to be more in line with the FY91 level. Oil and gas leasing revenues have not increased on federal lands as anticipated.

The state guarantees that estimated county equalization revenues will be received by the school districts. Thus state payments are made to cover protested and delinquent taxes as well as shortfalls in other county equalization revenues to hold districts harmless from such shortfalls. OBPP anticipates that the level of shortfall may rise to $2 million per year.

ANTICIPATED SUPPLEMENTAL APPROPRIATIONS

In addition to the general fund revenue shortfall, the need for supplemental appropriations compounds the general fund deficit. Agencies have managed their resources carefully and, as a result, many have eliminated the need for supplementals over the last few months. Nevertheless, the weak state and national economy, entitlement programs, federal mandates and shortfalls in the school equalization account result in significant outstanding supplemental needs that must be anticipated as the budget is balanced. Without prudent planning for the demands, adequate funds may not be available when they are needed this time next year.

The following table provides preliminary estimates of the amount of general fund supplemental requests anticipated for the remainder of the biennium and included on the general fund balance sheet that follows. However, given the severity of the financial situation, the Governor is urging prudent agency management and the Executive Budget is recommending HB2 language, expressing legislative intent, to mitigate each and every projected supplemental to the maximum extent feasible.

Anticipated General Fund Supplementals
FY 1992 and 1993 by Agency*

Agency	FY 1992	FY 1993
State Auditor's Office	$ 57,000	$ 113,000
Department of Justice	160,000	(45,000)
Military Affairs	0	30,000
SRS	1,000,000	10,000,000
School for the Deaf & Blind	0	50,000
Family Services	300,000	1,200,000
State Lands/Fires	150,000	4,850,000
Corrections/Human Services	123,000	1,456,000
Office of Public Instruction	320,000	320,000
Board of Public Education	6,000	4,000
Department of Revenue	850,000	0
Total	$ 2,966,000	$17,978,000

* A negative amount indicates the agency intends to reduce expenditures in FY93 to cover a portion of the FY92 supplemental.

OFFICE OF BUDGET AND PROGRAM PLANNING
PROJECTED GENERAL FUND BALANCE

	ACTUAL FY 91	ESTIMATED FY 92	ESTIMATED FY 93
BEGINNING FUND BALANCE	$89.038	$58.700	($18.245)
RECEIPTS:			
ESTIMATED REVENUE	$420.257	$451.004	$493.361
TOTAL AVAILABLE	$509.295	$509.704	$475.116
DISBURSEMENTS:			
BUDGETED DISBURSEMENTS	457.574	478.495	441.775
LEGISLATIVE FEED BILL		0.536	5.036
MISCELLANEOUS APPROPRIATIONS		5.771	7.821
EMPLOYEE PAY PLAN		12.962	20.914
SUPPLEMENTAL REQUESTS:			
SCHOOL FOUNDATION PROGRAM			24.618
ALL OTHER		2.966	17.979
TRANS INTEREST		2.548	7.975
DEBT SERVICE		10.817	11.754
PROPERTY TAX REIMBURSEMENT		19.101	19.101
RETIREE SUPPLEMENT PAYMENTS		3.194	3.730
LANGUAGE APPROPRIATIONS		0.071	
REVERSIONS		−2.500	−2.500
TOTAL DISBURSEMENTS	$457.574	$533.961	$558.203
FUND BALANCE ADJUSTMENTS	6.979	6.012	2.991
ENDING FUND BALANCE	**$58.700**	**($18.245)**	**($80.096)**
PROJECTED CASH BALANCE	**16.400**	**(45.400)**	**(102.400)**

GOVERNOR'S SPECIAL SESSION RECOMMENDATIONS:

	FY 92	FY 93
PROPOSED ACTION:		
EXPENDITURE REDUCTIONS		39.600
FUNDING SWITCHES		19.100
REVENUE ENHANCEMENTS		22.700
GENERAL FUND STABILIZATION ACCOUNT	42.500	(25.600)
PROPERTY TAX CASH MANAGEMENT ($17M CASH)		17.500
PROPOSED FUND BALANCE	24.255	**18.704**
PROPOSED CASH BALANCE	(45.400)	(29.100)
BORROWABLE GF STABILIZATION FUNDS		**42.500**
COMBINED CASH BALANCE		**13.400**

FOUNDATION AND GTB SUMMARY

	Actual FY 1990	Actual FY 1991	Estimated FY1992	Estimated FY1993
Beginning Balance	$15.309	$20.592	$9.481	$0.000
Receipts				
Estimated Revenue	$292.905	$376.149	$367.949	$376.373
General fund Supplemental			20.477	3.653
Total Available	$308.214	$396.741	$397.907	$380.027
Disbursements				
Foundation	$287.623	$347.047	$347.732	$352.658
Guaranteed Tax Base	.000	44.382	46.119	47.924
Transportation	.000	.000	3.908	3.914
Telecommunications	.000	.000	.148	.150
Total Disbursements	$287.623	$391.429	$397.907	$404.646
Adjustments	.000	4.169	.000	.000
Ending Fund Balance	$ 20.592	$ 9.481	$ .000	$(24.619)

The cost of Foundation and GTB support for public schools is anticipated to exceed available revenues, including the general fund supplemental granted in the January special legislative session, by $24.6 million in Fiscal 1993. This is due to revenue shortfalls discussed on the previous page and increased expenditures due to higher than anticipated enrollments. The increased enrollments add $6.1 million to the anticipated cost.

PROPOSED SPECIAL SESSION ACTIONS

Change in Balances in Millions

	Amount
Expenditure Reductions:	
Increase GF Reductions to 8% of "Fully Funded" Operating Budget	$ 9.1
Agency Liquor Stores	2.0
Eliminate State Retiree Supplements (SB226)	3.7
Welfare Reform	1.6
Galen Service Improvements	1.5
4% Reduction in Foundation Program Payments	14.1
Tuition Approved by BOR in Excess of Legislative Intent	1.6
Reduce GF for University Tuition Not Approved By LFC	3.8
Special Education Transportation	0.7
Postpone Planning for U-System Buildings	1.5
Total	**39.6**
Funding Switches:	
Switch Funding for Personal Property Tax Reimbursement	**19.1**
Revenue Enhancements:	
Health Care Cost Control, Access and Planning	6.1
Video Gaming Tax Increased to SD Level	16.6
Total	**22.7**
General Fund Stabilization Account:	
Parks/Arts Trust Balances Used to Create GF Stabilization Account	(2.0)
Revenue Accruals Net of Appropriation	18.9
Total	**16.9**
<<<<<Total Fund & Cash Balance >>>>>	**$ 98.3**
Cash Management:	
Move Property Tax Payments 5 Days to 25th of Month	17.0
Restore Governor's Authority	0.0
Change Foundation Program Payment Schedules	0.5
Total	**17.5**
<<<<<Total Fund & Cash Balance >>>>>	**$115.8**

State and Agency Management:

Change Boilerplate in HB 2
Revenue Accruals
Fire Suppression Costs

EXPENDITURE REDUCTIONS

Cutting budgets is always difficult business. It becomes an even more difficult task when cuts must be made a second time in the same biennium. Such is the case here. The Executive Budget recommends areas for spending reductions in a manner that will equalize the level of reductions made across state government in the last special session and those proposed for this one.

As is so often the case, the best course of action for the long term is the most difficult course in the short term. In order to avoid creating more challenging budget problems for lawmakers who will meet in January, 1993, the size of the state's spending obligations should be reduced in this special session. Accordingly, the executive is recommending that spending reductions play the lead role, measured by both number of actions and dollars realized, in bringing the state's budget into balance.

Unfortunately, however, time does not allow for the thorough consideration that a regular session might give to major restructuring and total program elimination. Most regular sessions take place after agency, legislative and executive staffs have worked for more than a year developing and researching proposals. A legislature then takes the better part of four months to review those proposals and make recommendations. Due to the collapsed timetable involved in calling this special session expeditiously, extensive time for agency review and preparation simply was not available.

The administration has proposed pursuing specific expenditure reductions:

a. In programs that do not meet the dual threshold of "a needed and necessary service, delivered efficiently," and

b. In agencies with access to available cash from other <u>currently</u> <u>existing</u> sources.

In an effort to distribute the burden equally among all agencies, an analysis was prepared to determine which agencies' FY93 general fund operating budgets had been cut to the eight percent level originally proposed in the executive's reduction plan from the fall of 1991. After considerable review, a determination was made to:

a. Hold harmless from further reductions eight agencies which have already been cut more than 8%,

b. Remove from consideration six agencies which, by virtue of small size, dependency on general fund, current fiscal condition or special liability, could not sustain further cuts without seriously jeopardizing the essence of their mission, and

c. Raise the level of reductions in the remaining nineteen agencies to 8%.

In order to allow agencies to implement reductions effectively, two points are important for everyone involved in the process to bear in mind. First, increasing agency management flexibility is a must if these reductions are to work. Giving agency leaders the discretion to manage a dwindling pool of dollars will go a long way in preserving quality critical services. This topic is covered in

greater degree in the State and Agency Management section of this budget book.

A second important point is that agencies are being encouraged to bring legislation to the session which closes a lower priority program in their agency if, in their judgment, it is the only way for their agency to manage through a reduction adequately.

Some agencies are able to present proposals which both institute reform and realize reductions. For example the Department of Social and Rehabilitation Services has expedited a package which fundamentally restructures the welfare system, encouraging work and reducing incentives for welfare clients to move into Montana.

Finally, critics will charge that the Executive Budget is "anti-education." Indeed, the savings proposed from both the university system and K-12 education are substantial, but realistic in light of several mitigating factors.

First and foremost, previous executive budgets have been generous to education. In fact, the executive proposal for Special Session I included <u>no</u> reduction for the foundation program, and the university system proposal was weighted heavily <u>away</u> from reductions in the first year of the biennium, per agreement between the administration and the Montana University System. More significantly, however, the outcome of that session resulted in much kinder treatment of education than other agencies.

Proposed Reductions for FY93 General Fund Operating Budgets

Cumulative Reductions: Regular and Special Legislative Sessions Plus Executive Budget Proposals

	FY93					EXECUTIVE BUDGET PROPOSAL	
AGENCY	"FULLY FUNDED" GEN FUND OP BUDGET	HB2 VACANCY SAVINGS	UNDER FUNDING PAYPLAN	JAN 1992 SPEC SESS ACTIONS	CUMULATIVE % REDUCTNS TO-DATE	REDUCTIONS	CUMULATIVE % REDUCTNS
COMM OF POL PRACTICE	123,884	(591)	(1,212)	0	-1.46%	0	-1.46%
CORRECTIONS	71,612,622	(1,007,386)	(787,327)	228,991	-2.19%	0	-2.19%
BRD OF PUB EDUCATION	120,030	0	(748)	(3,034)	-3.15%	0	-3.15%
PSC	2,151,696	(51,209)	(18,776)	0	-3.25%	0	-3.25%
FAMILY SERVICES	16,260,439	(165,402)	(200,679)	(253,388)	-3.81%	0	-3.81%
LIVESTOCK	865,315	(24,632)	(8,411)	0	-3.82%	0	-3.82%
SCHOOL OF DEAF & BLIND	2,873,536	(36,874)	(31,632)	(46,553)	-4.00%	(57,471)	-6.00%
LEGISLATIVE AUDITOR	1,306,897	(5,637)	0	(3,211)	-0.68%	(95,704)	-8.00%
HIGHER EDUCATION	132,375,048	(1,194,697)	0	(2,368,417)	-2.69%	(7,026,890)	-8.00%
E.Q.C.	303,285	(1,390)	0	(7,400)	-2.90%	(15,473)	-8.00%
HISTORICAL SOCIETY	1,353,599	(16,181)	(13,617)	(11,905)	-3.08%	(66,585)	-8.00%
JUDICIARY	5,766,497	(25,781)	0	(179,138)	-3.55%	(256,401)	-8.00%
CRIME CONTROL	544,653	(2,522)	(4,974)	(13,400)	-3.84%	(22,676)	-8.00%
SECRETARY OF STATE	1,037,610	(15,394)	(8,214)	(25,000)	-4.68%	(34,401)	-8.00%
REVENUE	21,378,234	(631,475)	(237,226)	(134,611)	-4.69%	(706,947)	-8.00%
HEALTH & ENV SCIENCES	3,894,010	(78,216)	(26,848)	(99,105)	-5.24%	(107,352)	-8.00%
LEGISLATIVE COUNCIL	2,182,005	(9,852)	0	(108,608)	-5.43%	(56,100)	-8.00%
LEGISL FISCAL ANALYST	926,863	(4,260)	0	(46,156)	-5.44%	(23,733)	-8.00%
SRS	11,577,866	(211,779)	(101,135)	(317,387)	-5.44%	(295,929)	-8.00%
ARTS COUNCIL	128,884	0	(864)	(6,498)	-5.71%	(2,949)	-8.00%
LIBRARY COMMISSION	800,953	(8,730)	(10,195)	(31,281)	-6.27%	(13,870)	-8.00%
MILITARY AFFAIRS	2,173,964	(51,789)	(15,922)	(75,313)	-6.58%	(30,893)	-8.00%
DNRC	5,120,293	(142,693)	(51,903)	(142,816)	-6.59%	(72,212)	-8.00%
O.P.I.	3,788,597	(41,119)	(27,671)	(185,990)	-6.72%	(48,308)	-8.00%
JUSTICE	12,843,921	(371,405)	(105,045)	(414,110)	-6.93%	(136,954)	-8.00%
STATE LANDS	9,243,339	(241,047)	(66,452)	(400,363)	-7.66%	(31,605)	-8.00%
STATE AUDITOR	2,399,905	(73,457)	(22,994)	(115,173)	-8.82%	0	-8.82%
COMMERCE	2,958,841	(49,671)	(22,505)	(189,933)	-8.86%	0	-8.86%
ADMINISTRATION	3,773,955	(124,624)	(33,798)	(180,777)	-8.99%	0	-8.99%
FISH, WILDLIFE & PARKS	444,151	(6,936)	(1,755)	(34,837)	-9.80%	0	-9.80%
TRANSPORTATION	400,873	(6,203)	(2,759)	(31,353)	-10.06%	0	-10.06%
GOVERNOR'S OFFICE	2,681,857	(84,216)	(20,442)	(165,933)	-10.09%	0	-10.09%
AGRICULTURE	1,170,113	(37,350)	(12,344)	(89,634)	-11.91%	0	-11.91%
LABOR & INDUSTRY	378,307	(4,662)	(4,605)	(39,771)	-12.96%	0	-12.96%
TOTAL	324,962,043	(4,727,180)	(1,840,054)	(5,492,104)	-3.71%	(9,102,451)	-6.51%

Governmental Function

GENERAL GOVERNMENT	57,844,404	(1,408,596)	(452,587)	(1,500,183)	-5.81%	(1,379,281)	-8.20%
HUMAN SERVICES	32,110,621	(460,059)	(333,266)	(709,651)	-4.68%	(403,281)	-5.94%
NAT RES & COMMERCE	21,953,749	(553,538)	(182,147)	(857,583)	-7.26%	(103,817)	-7.73%
INSTITUTIONS & CULT AFF	73,896,058	(1,032,297)	(812,003)	179,307	-2.25%	(83,404)	-2.37%
EDUCATION	139,157,211	(1,272,690)	(60,051)	(2,603,994)	-2.83%	(7,132,668)	-7.95%

NOTES:

1. "Fully Funded GF Op Budget" means HB2/509 less non-operating budget categories with restoration of vacancy savings, 0.5% GF reduction, payplan underfunding, and January 1992 special legislative session actions.
2. "HB2 Vacancy Savings" includes across-the-board 0.5% general fund reduction.
3. "Under Funding Payplan" reflects difference between HB509 appropriation for executive branch agencies and full funding based on "snapshot" FTE attributes.
4. "January 1992 Special Session Actions" means net reductions (ie. excluding fund shifts) applicable to operating budget categories.
5. Higher Education tuition and fee increases considered as fund shift for purposes of determining net reductions. $1,321,114 in increased tuition and fees were used to offset HB2 vacancy savings and provide for pay increases above levels funding by HB509.

8% Reductions to General Fund Operating Budgets

General Fund Savings: $9,100,000

Action: Amend various sections of Chapter No. 815, Laws of 1991 (HB 2).

Summary: The Executive Budget proposes a reduction of $9.1 million in agency general fund budgets. Most agencies would receive at least an 8% reduction in FY93 operating budgets[1], **taking into consideration reductions which have already been made to agency operating budgets by the 1991 Legislature in both regular and special sessions.** In determining the reductions already made to agency operating budgets, fund switches (i.e., replacing general fund with another fund source) were not counted.

In the 1991 Regular session, the legislature reduced amounts budgeted for personal services by 4% plus an additional across-the-board reduction in general fund authority of 0.5% for some agencies. In addition, the general fund appropriated for the state pay plan for executive branch agencies was 91% and 88% of the amounts required to fully fund the adopted pay plan[2] in FY92 and FY93, respectively. In the January 1992 Special Session, the legislature made further reductions to agency operating budgets. The cumulative reductions made in both regular and special session to date to agencies' FY93 general fund operating budgets (not counting fund switches) is $12.1 million, or 3.71% on average.

The Executive Budget proposes additional reductions to general fund operating budgets sufficient to bring all agencies's total FY93 reductions to at least 8%, with some exceptions. Agencies which have already received reductions exceeding 8% (eight agencies) would receive no further reductions. Six agencies were exempted from further reductions while one agency was partially exempt due to extenuating circumstances (discussed in further detail under subcommittee narratives). The Executive Budget proposals result in a cumulative reduction to agencies' FY93 general fund operating budgets (not counting fund switches) of $21.2 million, or 6.51% on average. The Executive Budget proposals are presented in the table on the following page.

Some of the reductions made in the January 1992 Special Session were spread unevenly across the two fiscal years of the biennium to the extent that an agency preferred to take most of the reductions in one year or the other. However, at this point in the biennium, the Executive Budget cannot give agencies credit or debit for greater reductions taken in FY92 without increasing the 8% reductions for other agencies. The Executive Budget does not recommend increasing the 8% reductions in agencies' FY93 operating budgets.

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1 "Operating budgets" include amounts budgeted for personal services, operating expenses, and equipment and exclude amounts budgeted for grants, benefit payments, local assistance, capital acquisitions, debt service, and transfers.

2 Based on the January 26, 1990 snapshot of FTE attributes, as revised by appropriation subcommittees in the 1991 legislative session.

Liquor Store Conversion

	FY93	FY94
General Fund Revenue:	$ 2,000,000	$ 2,000,000

Action: Amend Titles 2, 16, and 17 of the Montana Codes Annotated eliminating the authority of the Department of Revenue to establish and maintain state employee-operated liquor stores, phasing out existing state employee-operated liquor stores by June 30, 1993; exempting the phaseout of state employee-operated liquor stores from the privatization plan review requirements; providing authority for state agency liquor stores to apply for and receive retail off-premises consumption beer and table wine licenses; providing reduction-in-force rights for displaced liquor store employees; and providing a method of state financing for an employee-owned enterprise.

Summary: The remaining 29 state-owned liquor stores would be converted to agency stores. The proposal would transfer $4 million from the liquor enterprise fund to the general fund of which $2 million would be transferred in FY93 and $2 million in FY94. Employees would be given absolute preference to form employee-owned enterprises, would be eligible for state loans, and certain tax credits.

Eliminate State Retiree Supplements (SB 226)

General Fund Savings: $3,700,000

Action: Repeal sections 4, 5, and 18 of chapter No. 823, Laws of 1991.

Summary: This proposal would eliminate adjustment payments to retirees of state, local and teacher retirement systems. The adjustment payments were authorized for state, local and teacher retirees who are Montana residents to compensate for the loss of state tax exemption for state and local retirement benefits above $3,600 per year, eliminated by the legislature as a result of the U.S. Supreme Court decision in Davis v. Michigan. The constitutionality of the adjustment to state and local retirees is currently being challenged in state courts.

FUNDING SWITCH

<u>Change the Funding Source for the Personal Property Tax Reimbursement to Local Governments</u>

General Fund Savings: $ 19,100,000

<u>Action:</u> Repeal 15-1-111, MCA, to eliminate the current procedures for calculating the reimbursement and the statutory general fund appropriation. Amend 23-5-610, MCA, to create a state special revenue account, an allocation of the video gaming gross income tax to the account and a method for distributing the proceeds from the account to local governments.

<u>Summary:</u> HB20, passed during the June 1989 Special Session, reduced personal property tax rates from a range of 16% to 11% to a uniform 9%. To mitigate the loss of personal property tax revenues to local governments, a reimbursement mechanism was provided in the act. The mechanism was intended to reimburse local governments on a dollar-for-dollar basis through the use of a statutory general fund appropriation. The general fund distribution expected in FY93 totals $19.1 million.

The proposal replaces the general fund appropriation with a statutory appropriation of video gaming tax proceeds. An increase in the video gaming tax rate would finance the state special revenue account without affecting the amount currently distributed to local governments. A method for distributing the personal property tax reimbursement revenue that closely approximates the current distribution will be proposed.

The proposed funding change would result in a projected general fund savings of $19.1 million in FY93.

REVENUE INCREASES

Recognizing the depth and seriousness of the state's budget problems, Governor Stephens has committed to the consideration of revenue as a part of the solution. It is hoped that this indication of flexibility will generate further cooperation.

From an abstract, fiscal point of view, revenue enhancements are the second choice, after expenditure reductions, to address an ongoing fiscal imbalance.

The Executive Budget proposes two specific revenue increases. These increases are proposed in areas where Montana's economy is providing some positive departure from the no growth/slow growth pattern affecting most of the state's industries. A gross receipts tax is proposed on the state's hospitals, and an increase in the video gaming tax also is proposed. The gross receipts tax is recommended in Section B, Human Services Appropriations Subcommittee.

Given the condition of the Montana economy, and the fact that the performance of "job producers" is very volatile, the administration maintains its opposition to increases in income taxes for any Montanan.

Increase Video Gaming Tax from 15% to 35% of Gross Machine Income and Use the Increased Revenue to Finance the Personal Property Tax Reimbursement Account and to Increase General Fund Revenues

General Fund Revenue: $ 16,600,000

Action: Amend 23-5-610, MCA, to increase the gross machine income tax rate from 15% to 35%. Amend Section 4 to increase the general fund share of the proceeds to 40% and decrease the local government share to 30%. Create a new allocation of 30% for the personal property tax reimbursement account. Provide for an immediate effective date and a retroactive applicability date.

Summary: The proposal would increase Montana's video gaming tax to equal that required in our neighboring state of South Dakota.

Currently, Montana law allows machine operators to retain the highest proportion of monies wagered of any of the video gaming states or Canadian provinces. The proposal would increase the tax to be more in line with other states.

As shown below, changing the allocation of the tax proceeds would hold local governments harmless. The amount currently allocated to local governments would be maintained and the full reimbursement for the loss of personal property taxes would continue. The higher rate also would generate increased revenue to help alleviate the state general fund deficit.

Proposed Distribution of 35% Video Gaming Tax

Government Entity	Percent Distribution	Estimated Distribution	Current Distribution	Difference
General Fund	40%	$25,788,000	$9,226,000	$16,562,000
Cities/Counties	30%	19,341,000	18,456,000	885,093
HB 20 Account	30%	19,341,000	19,100,000	240,000

The proposal would apply retroactively to periods beginning April 1, 1992.

CASH MANAGEMENT

In previous budgets the executive and legislature have focused their budget balancing on the "fund balance" in the general fund and school equalization account. This means that appropriations for expenditures did not exceed the sum of the revenues to be received or accrued during the each fiscal year and the balance available from the previous fiscal year.

The actual receipt of revenues in these accounts occurs more toward the end of each fiscal year with a significant portion, over $30 million, of revenues being received after the June 30 end of the fiscal year. Expenditures, however, occur more uniformly during the year though they tend to be slightly larger during the first half of the year with only a small amount, $8 million, accrued but unpaid at fiscal year end. The more rapid rate of cash disbursement compared to late arrival of revenues creates a situation where during each year cash must be borrowed in the form of Tax and Revenue Anticipation Notes (TRANs) and/or other internally borrowable funds to fill the gap between when expenditures occur and revenues are received. Thus, while we budget for a positive "fund balance", it is recognized that during the year there are times when expenditures exceed revenues and there will be a negative "cash balance" which will be covered with TRANs. This recognition is evidenced in the revenue resolution where a level of TRANs, i.e. short term borrowing to provide cash, is anticipated.

The deficits created by timing differences between revenues and expenditures are not limited to points within the fiscal year. They have at times in the past occurred at fiscal year end. Under the budget appropriated in the 1991 regular session and the January special session, we anticipated a cash deficit to occur at fiscal year end in the current biennium as well. Because, as cited above, over $30 million of revenues are not received until after the June 30 end of the fiscal year, a "year end cash deficit" can result at the same time the "year end fund balance" is positive.

Although a cash deficit at year end does not prevent the sale of TRANs, a deficit makes the issue more difficult. Since TRANs must be repaid from cash before the end of the fiscal year, this means that the state must have sufficient cash balances in the general fund and school equalization account at year end to repay the TRANs. If these accounts have year end cash deficits other internally borrowable funds must be available to meet this requirement.

Agencies which rate our bonds, and thereby determine the interest rate which the state must pay on its debt, are concerned that Montana maintain the ability to repay TRANs when they become due. This assurance is given by: (1) having a positive ending "fund balance"; (2) having adequate cash or borrowable reserves at year end; and (3) having mechanisms to guarantee that the fund balance and cash will be available if the revenues and expenditures are not as adopted.

In order to provide these assurances, the first step the Executive Budget proposes is balancing the budget with a positive "fund balance". Second, the Executive Budget recommends a series of changes to improve the state's management of cash. Specifically, four actions are recommended:

1. The date that property taxes payments are due is moved up by five days to bring cash into the end of the fiscal year. Without this change the cash would not be received until the following fiscal year. This action will provide additional cash in June prior to the repayment of TRANs.

2. The payment of foundation and GTB to school districts is changed from a fixed schedule to one designed to make the state's disbursement more closely match revenues. This action will reduce the gap between revenues and expenditures during the fiscal year, thus reducing the amount of TRANs which must be issued.

3. The balances of the parks and arts trust funds, plus an additional amount appropriated from the general fund to bring the total to the amount of additional revenue accruals proposed, are transferred to a newly created general fund stabilization account. The balance in the stabilization account will provide borrowable reserves for the general fund and interest in this account will be deposited to the general fund. This action will provide additional borrowable reserves at year end to guarantee the repayment of TRANs.

4. Restoration of the Governor's authority to make budget reductions if revenues should prove insufficient to meet appropriations is supported. This action will provide the assurance to holders of TRANs that, should revenues deteriorate, the Governor has direction and authority to restore balance.

Taken together, these four actions will reduce the size of the TRANs issue required to meet cash flow fluctuations during the fiscal year by nearly $60 million, increase the cash balance available to repay TRANs by $17 million, provide assurance to bond holders that the State of Montana has both a method to reduce expenditures and a stabilization account to address revenue shortfalls. These actions and interaction with the proposal for full accrual of revenues are summarized in the following table.

Effects of Cash Management Actions
(in millions)

	General fund		Stabilization fund	
Action	Fund Balance	Cash	Fund Balance	Cash
Property tax payments	$ 0.0	$17.0	$ 0.0	$ 0.0
School payments	0.5	0.5	*	*
Parks and Arts transfer	0.0	0	18.9	18.9
Revenue accruals	42.5	0	0.0	0.0
General fund Appropriation to Stabilization fund	(23.6)	(23.6)	23.6	23.6
Net change	$19.4	($6.1)	$42.5	$42.5

* School payment changes reduce size of TRANs issue but do not affect balance.

The table illustrates that the full increase in general fund balance due to revenue accrual will be matched by the cash balance in the stabilization account. The deposit of these amounts to the stabilization account ensures that the revenue accruals do not become expended because such an action would further exacerbate the problems in providing cash for expenditures. The stabilization account will provide borrowable reserves to reduce the size of the TRANs issue or guarantee its repayment in addition to providing a source of funds should the fiscal situation deteriorate again.

Using Parks and Arts Trust Funds and a General Fund Appropriation to Create a General Fund Stabilization Account.

Net General Fund Impact: $16,882,917
Net Stabilization Account Impact: $42,500,000

Action: Revise 15-35-108, MCA, to eliminate the parks and arts trust funds. Increase coal tax receipts deposited into the state special revenue accounts for parks and arts preservation and operations to hold parks and arts programs harmless from this action and, as a result, decrease general fund revenues approximately $2.1 million per year. Create a restricted account to stabilize the general fund in the event of a revenue shortfall. Appropriate $18.9 million from the parks and arts trust funds to the stabilization account and such amount from the general fund as necessary to establish the balance of the stabilization account equal to the additional general fund and school equalization account revenue resulting from full accrual. This general fund appropriation is currently estimated to be $23.6 million.

Summary: This action transfers the balances of the parks and arts trust funds to a newly created general fund stabilization account. This stabilization account would be a restricted account which could only be used in the event that general fund revenues are at least two and one-half percent (2.5%) less than estimated by the most recently adjourned legislative assembly and the Governor had exercised his authority granted under statute to reduce expenditures. In such an event, the Governor could order the state treasurer to transfer funds from the stabilization account to the general fund. The amount of the transfer could not exceed 2.5% of projected general fund and school equalization account revenues for the biennium. In this way, the legislature empowers the Governor with the means to remedy a revenue shortfall without having to call a special session.

The balance in the general fund stabilization account is limited to five percent (5%) of the total fiscal year's appropriations from the general fund and school equalization account. Any deposits into the stabilization account which brings its balance to an amount greater than this 5% ceiling must be deposited instead into the general fund.

The initial source of funds for the general fund stabilization account will be the balances from the parks and arts trust funds and a general fund appropriation. The trust funds have developed over the years through the receipt of coal severance taxes. After deductions for the permanent coal trust funds and the former highway reconstruction trust distribution deposited to the general fund, under current law the parks trust fund receives 3.33% and the arts trust fund receives 1.67% of the remaining balance of coal tax receipts.

Interest earnings from the investment of the fund balances support the operation and preservation of parks and arts within the state. Transferring the balance of these trust funds will eliminate the interest earnings of the fund. This action replaces the loss of interest earnings from the trust funds with increased shares of coal tax receipts. In this way, funding for the operation and preservation of parks and arts remain at currently projected levels.

The following table represents the probable impact on the revenues and expenditures of the parks and arts accounts. The table below reflects the impact only on those trust and state special revenue accounts which are associated with coal severance taxes. It does not include all of the parks and arts accounts nor the total appropriation for parks or arts operations. This action will not impact the appropriations currently represented in HB 2.

	FY91 (actual)	FY92 (estimated)	FY93 (projected)	FY94 (projected)	FY95 (projected)
BEGINNING BALANCE	18,987,583	19,881,111	19,848,803	1,115,999	1,243,803
REVENUE					
-- Coal Tax Receipts	958,699	788,652	2,916,810	2,916,810	2,916,810
-- Investment Earnings	1,895,380	1,879,642	0	0	0
Total Revenues:	2,854,079	2,668,294	2,916,810	2,916,810	2,916,810
EXPENDITURES:					
FW&P	1,227,342	2,046,535	2,034,084	2,095,107	2,157,960
Arts Council	696,948	654,067	673,689	693,899	714,716
Transfers to Stabilization fund	0	0	18,941,842	0	
Total Expenditures:	1,924,290	2,700,602	21,649,614	2,789,006	2,872,676
Prior Year Adjustments:	(36,261)	0	0	0	0
RETAINED EARNINGS	893,528	(32,308)	(18,732,805)	127,804	44,134
ENDING BALANCE	19,881,111	19,848,803	1,115,999	1,243,803	1,287,937

The following table represents the proposed change to the current distribution of coal tax receipts which would shift the deposit of coal tax receipts to state special revenue accounts for the operation and preservation of parks and art. It would increase the deposit of coal tax receipts to 12.67% for parks and 4.33% for art.

	FY93 Current Law	Projected Tax Receipts (Current Law)	Proposed Law (FY93)	Projected Tax Receipts (Proposed Law)
Total Projected Tax Receipts		45,151,855		45,151,855
Coal Trust Funds	50.00%	22,575,927	50.00%	22,575,927
General Fund	12.00%	5,418,223	12.00%	5,418,223
Subtotal:	62.00%	27,994,150	62.00%	27,994,150
Balance Available for Distribution:	38.00%	17,157,705	38.00%	17,157,705
Local Impact Account	17.50%	3,002,598	17.50%	3,002,598
State Equalization Aid to Schools	30.00%	5,147,311	30.00%	5,147,311
County Land Planning	1.00%	171,577	1.00%	171,577
Renewable Resource Development Bonds	1.25%	214,471	1.25%	214,471
State Library Commission	1.00%	171,577	1.00%	171,577
Conservation Districts	0.50%	85,789	0.50%	85,789
Water Development Debts	1.25%	214,471	1.25%	214,471
Montana Growth Through Agriculture	2.00%	343,154	2.00%	343,154
Parks Trust Funds	0.00%	0	0.00%	0
Parks Operations & Preservation	3.33%	571,352	12.67%	2,173,881
Arts Trust Fund	0.00%	0	0.00%	0
Montana Arts Council	1.67%	286,534	4.33%	742,929
General Fund	40.50%	6,948,870	28.50%	4,889,946
Total Distribution of Remaining Balance:	100.00%	17,157,705	100.00%	17,157,705

Coal tax receipts deposited into the general fund would decrease from 40.5% to 30.5% of the disbursable balance. This reduction amounts to a decrease of $2.1 million per year in general fund revenue. This loss of coal tax receipts is offset several times by the $18.9 million transferred from the parks and arts trust funds to the state general fund. The net impact of this transfer would be a general fund increase of approximately $16.8 million during FY93.

STATE AND AGENCY MANAGEMENT

Given the very difficult expenditure reductions and other budget balancing decisions which must be made in order to restore state fiscal stability, it is absolutely critical that the Special Session II Legislature take positive action which will: (1) enable directors to manage the resources remaining, (2) transition to the full accrual of revenue, and (3) avoid a third special session due to potential extraordinary fire suppression costs which may result from the drought. The first two areas recommended for legislative consideration are summarized below. The recommended action for dealing with extraordinary fire suppression costs is presented in full under Section C, the Natural Resources and Commerce Appropriations Subcommittee.

Agency Management Responsibility and Flexibility

Statutory and boilerplate restrictions imposed on state agencies hamper efficient and effective management. Compliance with restrictions, rules, regulations and forms leads to waste and to ineffectiveness in accomplishing the really important functions which constitute the reasons for an agency to exist.

In this context, four amendments to Chapter 815, Laws of 1991, HB2 are recommended:

1. Eliminate Section 2 which limits personal services transfers. This action will afford agencies the flexibility to manage FTE and to make required increases in operating expenses when circumstances dictate such adjustments are more effective or efficient.

2. Eliminate Section 3 which states first level expenditures are adopted as legislative intent. This action will enable agencies manage both the reductions and ongoing operations with flexibility in the most efficient and effective manner.

3. Eliminate Section 7 which requires approval by the approving authority to fill budgeted positions which remain unfilled for more than six months and exclusion from the 1995 biennium budget of all positions unfilled for more than one year. These provisions have created a new "maneuver" of filling many vacant positions just prior to the deadlines when an agency otherwise might have left the positions vacant for additional months.

4. Add a new provision in Section 2 entitled "Agency Management Responsibility" which enables agencies to adjust spending authority within and among programs for personal services, operating expenses, equipment, capital outlay, grants and transfers without regard for the 5% operating budget restrictions contained in 17-7-138(1), MCA, or the 5% transfer limitations contained in 17-7-139, MCA. This management flexibility does not extend to local assistance, benefits and claims, or debt service. All such operating budget changes would continue to require approval of the approving authority and submission in accordance with 17-7-138(3), MCA.

Transition to Full Accrual of Revenue

The administration will introduce a resolution for legislative consideration regarding support for transition to full accrual of revenue at fiscal year end 1992. The Executive Budget contains this recommendation because, although this action requires an increased understanding of fund balance and cash management, it is the administration's judgment that the positives outweigh the negatives. Legislative concurrence with this judgment is requested for the following primary reasons:

1. Full accrual is a legitimate, recognized GAAP procedure used by many other states nationally, most particularly among states with high ratings and standards.

2. Full accrual of revenue will be required by the Governmental Accounting Standards Board in the 1995 biennium Executive Budget.

3. FY92 is the base year used to prepare the 1995 biennium budget and that process will be easier and more accurate if the analysis of all accounting entities includes the additional revenue resulting from accrual, rather than having the agencies and the OBPP making projections two years into the future.

4. The state management record of never ending a fiscal year with a negative fund balance will be preserved and this may have a positive impact on the rating agencies, so long as the Special Session II actions take into account the difference between a cash balance and a fund balance.

5. Starting this process now will facilitate preparation of and deliberations on the Executive Budget to be presented in six months for all involved--legislators, state employees and concerned citizens.

It is recognized that it is impossible to be 100% consistent and include the few remaining expenditure accruals during this special session because the Governmental Accounting Standards Board has not yet issued guidance. However, those few remaining expenditures will be easier to deal with in the 1995 biennium budget than the projections for the approximately 1,500 accounting entities if full accrual of revenue remains undone at the close of this special session.

Provide for Potential Extraordinary Fire Suppression Costs

It is recommended that the Legislature appropriate up to $5,000,000 from the recommended general fund stabilization account to be held as a contingency in the event of extraordinary fire suppression costs during the remainder of calendar year 1992. During the last drought, the Department of State Lands incurred more fire suppression costs, a total of $12.6 million, than it had appropriation authority and the FY93 budget reductions have eroded the agency's ability to manage such costs this year. The budget amendment used to avoid calling a special session of the legislature under then-Governor Schwinden was declared unconstitutional. This means the only known other alternative to the recommendation would be calling Special Session III this fall.

EXECUTIVE BUDGET PROPOSED REDUCTIONS FOR AGENCY OPERATING BUDGETS

General Government Subcommittee

AGENCY	Cumulative Reductions To Date	Cumulative % Reductions To Date	Executive Budget Proposal Reductions	Executive Budget Proposal Cumulative % Reductions
COMM OF POL PRACTICE	(1,803)	-1.46%	0	-1.46%
LEGISLATIVE AUDITOR	(8,848)	-0.68%	(95,704)	-8.00%
E.Q.C.	(8,790)	-2.90%	(15,473)	-8.00%
JUDICIARY	(204,919)	-3.55%	(256,401)	-8.00%
CRIME CONTROL	(20,896)	-3.84%	(22,676)	-8.00%
SECRETARY OF STATE	(48,608)	-4.68%	(34,401)	-8.00%
REVENUE	(1,003,312)	-4.69%	(706,947)	-8.00%
LEGISLATIVE COUNCIL	(118,460)	-5.43%	(56,100)	-8.00%
LEGISL FISCAL ANALYST	(50,416)	-5.44%	(23,733)	-8.00%
MILITARY AFFAIRS	(143,024)	-6.58%	(30,893)	-8.00%
JUSTICE	(890,560)	-6.93%	(136,954)	-8.00%
STATE AUDITOR	(211,624)	-8.82%	0	-8.82%
ADMINISTRATION	(339,199)	-8.99%	0	-8.99%
TRANSPORTATION	(40,315)	-10.06%	0	-10.06%
GOVERNOR'S OFFICE	(270,591)	-10.09%	0	-10.09%
TOTAL	(3,361,365)	-5.81%	(1,379,281)	-8.20%

SECTION A

Item A1: General Fund Reductions to Operating Budgets

The proposed reductions for general government and transportation agencies exempt certain agencies from further reductions in their operating budgets. These exclusions are based upon either one of two criteria: small agencies with an inability to absorb further reductions or agencies currently experiencing significant cumulative reductions for the biennium or for FY93 which already exceed the 8% reduction recommendation and for whom additional cuts would widen the percentage disparity in relation to other agencies.

The January 1992 Special Session reduction of $17,156 in the biennial appropriations for the Commissioner of Political Practices, combined with vacancy savings, the 0.5% general fund reduction and the underfunding of the pay plan result in total biennial reductions of nearly 7% which present a major management challenge for a small agency with only 3.50 FTE.

In the second exempt category, cumulative reductions in the Department of Transportation are over 10% for FY93. Reductions in the State Auditor's Office and the Department of Administration currently exceed 8% for FY93. The Governor's Office is presently coping with general fund operating budget reductions in excess of 10% for FY93.

The proposed equalizing reduction for the Judiciary is predicated on the flexibility recommendations to the boilerplate of HB2 and on the addition of statutory flexibility in the management of salary increases by supreme court and district court justices.

EXECUTIVE BUDGET PROPOSED REDUCTIONS FOR AGENCY OPERATING BUDGETS

Human Services Subcommittee

AGENCY	Cumulative Reductions To Date	Cumulative % Reductions To Date	Executive Budget Proposal Reductions	Executive Budget Proposal Cumulative % Reductions
FAMILY SERVICES	(619,469)	-3.81%	0	-3.81%
HEALTH & ENV SCIENCES	(204,169)	-5.24%	(107,352)	-8.00%
SRS	(630,301)	-5.44%	(295,929)	-8.00%
LABOR & INDUSTRY	(49,038)	-12.96%	0	-12.96%
TOTAL	(1,502,977)	-4.68%	(403,281)	-5.94%

SECTION B

Item B1: General Fund Reductions to Operating Budgets

The proposed reductions for human service agencies exempt the Departments of Family Services and Labor & Industry from further reductions in their operating budgets.

The Department of Family Services is exempt from further reductions because it requested and received a FY92 supplemental appropriation for foster care in Special Session I of $2.2 million. An additional supplemental in the amount of $277,244 for foster care has been received for FY92 and forwarded for review by the Legislative Finance Committee. However, the department is appropriated approximately $515,000 in FY93 above the FY92 appropriation for family based and wrap-around services in its continuum of care plan which are aimed at preventing out-of-home placements in the foster care program. With the increase in family based and wrap-around services and the exemption from recommendation of any further operating budget cuts, the Governor has directed the agency to aggressively manage its FY93 operating and foster care budgets to produce a $1,000,000 reduction in the projected general fund supplemental request for FY93.

The Department of Labor is not recommended for further reduction because its operating budget already has been reduced by over 8%.

The Department of Health and Environmental Science operating budget is reduced by the recommended 8% for all nonexempt agencies. To make the DHES operating budget reduction consistent with operating budget reductions in all other nonexempt state agencies, the End Stage Renal Disease reduction of $125,000, taken in Special Session I, was not credited as an operating reduction, but was included as nonoperating benefits to clients consistent with benefits paid in SRS.

The Department of Social & Rehabilitation Services operating budget is reduced by the recommended 8% for all nonexempt agencies. Provided agency flexibility is granted through adoption of recommended amendments to HB2 boilerplate, SRS will be able to manage this further reduction.

Item B2: **Welfare Reform**

General Fund Savings: $ 1,552,337

Action: Amend HB2, reducing FY93 AFDC general fund by $492,337, AFDC state special revenue by $34,496 and AFDC federal special revenue by $1,347,939, and amending the language for item 1c. Reduce General Assistance general fund $246,356. Increase GA Project Work funding by $246,356 general fund and $246,356 federal revenue. Amend Section 53-3-206(8), MCA, with effective date of October 1, 1992. Reduce State Medical appropriation in FY93 by $1,060,000. Amend HB2 to increase Child Support appropriations by $676,307 in state special revenue and $1,312,832 in federal revenue.

Summary: This action would implement comprehensive reform of the Aid to Families with Dependent Children (AFDC), Child Support Enforcement (CSE), General Assistance (GA) and General Relief Medical Assistance (GRM) programs. The implementation will require amendments to HB2; separate legislation to amend GA and GRM statutes related to eligibility and requirements for benefits; and separate legislation to amend law on cost recovery in Child Support Enforcement.

AFDC is a federal program, funded with general fund, non-state-assumed county mill levies, and federal revenue, which is designed to provide cash assistance to low-income families who have dependent children. In FY93 the federal government share of AFDC expenditures will be 71.12%. AFDC eligibility also entitles a family to medical care through Medicaid. Day Care and JOBS programs also are available to AFDC-eligible families. No reductions in Day Care, JOBS or Medicaid are proposed in this budget. The payment amount for Aid to Families With Dependent Children (AFDC) is set by the Department of Social and Rehabilitation Services (SRS) as required by the federal Social Security Act, pursuant to 53-4-241, MCA.

This proposal recommends that the AFDC benefit standard be reduced from 42% of the federal poverty level to 38% effective September 1, 1992. At the same time, a change in the budgeting methodology (allowing the earned income to be subtracted from the standard of need as opposed to the benefit standard) for the AFDC program would allow working families to retain more of their income and remain AFDC eligible. Transfer of funds appropriated for Self-Initiated Day Care to At-Risk Day Care is recommended in order to allow Day Care assistance to working families at risk of entering or returning to the AFDC program.

A minimum AFDC benefit standard was outlined in federal law in Section 302(c) of the Medicare Catastrophic Coverage Act of 1988 (MCCA) which provides that the Secretary of the U.S. Department of Health and Human Services (HHS) shall not approve any State Plan for Medical Assistance (Medicaid) if the state has payment levels in effect under its Title IV-A plan (AFDC) which are less than the payment levels in effect under the AFDC plan on May 1, 1988. This Executive Budget recommendation does not violate that provision.

CSE assists families in achieving financial independence through the receipt of regular support payments from absent parents. The program also collects support from absent parents to offset the taxpayer contribution to AFDC. The program locates absent parents, identifies eligible child support assets, establishes paternity, establishes and enforces payment of support obligations, collects and

distributes support payments, and ensures that absent parents maintain medical health insurance coverage for their dependent children.

This proposal recommends that increased emphasis be placed on the CSE program to reduce the number of families on AFDC and to keep families from requiring public welfare services. Recommendations are to allow CSE to recover costs from non-AFDC custodial parties for services provided by the program, contracting of some casework and contracting of some absent parent location services.

GA is an entirely state-funded program operated in the 12 state-assumed counties, which is designed to provide cash assistance to low-income persons who are unemployable or employable but transitionally needy, and who are not eligible for cash assistance under AFDC or Social Security Disability programs. GA eligibility also provides access to the State Medical program (GRM) and various work-training programs. No reductions in State Medical or work-training programs for GA-eligible persons are proposed in this budget. Payment amounts for General Assistance (GA) are set by the department under 53-3-205, MCA, at a percentage of the federal poverty index established in the general appropriations act.

The proposal recommends that payment levels for GA recipients be set at 38% of the federal poverty index effective September 1, 1992. Under current law and provisions of the general appropriations act, these payments would be set at 42% of the federal poverty index during FY93. At the same time, there is recommended an expansion of a "self help" program and increased provision of chemical dependency counseling through the PWP programs to eliminate work barriers; reduced benefits ($50 per month) for applicants who have resided in Montana for less than two months; reduced eligibility criteria to four months or six months of benefits in an 18-month period (currently four or six months in a 12-month period); and increased participation requirements to four weeks (currently two weeks) before first payment of benefits.

GRM is an entirely state-funded program operated in the 12 state-assumed counties, which provides payment for medical services to eligible persons. The medical services are of similar scope and duration as services provided by the Medicaid program.

This welfare reform proposal would reduce eligibility for the GRM program to those persons who are eligible for General Assistance and require participation in a managed care program for those receiving GRM benefits.

Item B3: **Health Care Cost Control, Access and Planning**

General Fund Revenue: $6,150,000

Action: Introduce new legislation to implement a 2% gross receipts tax on hospitals, provide an appropriation for a rate increase for in-patient hospital Medicaid services, and establish and provide an appropriation for a statewide Health Care Planning Commission and grant program. Prior to implementation of any portion of this proposal, the Department of Social and Rehabilitation Services would be required to obtain approval of the tax program from the Health Care Financing Administration.

Summary: This proposal calls for enactment of a 2% gross receipts tax on Montana hospitals, effective November 1, 1992. The tax would be a simple gross receipts tax without exemptions or exclusions. This tax would generate approximately $8.3 million dollars over the six month period ending June 30, 1993. To ensure a full six months collections in FY93, the November, December and January tax would be payable April 1, 1993, and the February, March and April tax would be payable June 1, 1993. Proceeds of the tax would be placed in the general fund.

A Medicaid rate increase of approximately 4.72% to inpatient hospital services, effective January 1, 1993, would be provided. This $3,116,343 increase will be the first step in the process of rebasing hospital rates to provide reasonable and adequate reimbursement rates. The FY93 cost of the rate increase will be $900,000 general fund and $2,216,343 federal revenue. This increase will become a part of the base level of Medicaid reimbursement for the inpatient hospital program in the 1995 biennium. A study of the hospital reimbursement system currently is being conducted by a consulting firm for the Department of Social & Rehabilitation Services. Hospital reimbursement will be re-structured based on the results of this study in the 1995 biennium.

A statewide Health Care Planning Commission (HCPC), administratively attached to the Department of Health and Environmental Services, will be established and appropriated $1,250,000. The HCPC will be the single entity charged with responsibility for health planning in Montana. Commission activities will include developing a single billing system through the private sector for all health care billing, establishing a grant pool to insure rural access to health care including providing grants to rural hospitals with financial problems and funding demonstration projects in each of the five health care planning regions to improve access to the uninsured. No more than 15% of the funds appropriated could be used for the direct administration of the commission including development of the single billing system. The remainder of the money will be used to establish the rural health pool and to fund demonstration grants for increasing access of Montana's uninsured residents to health care.

The commission is proposed to have 13 members and be appointed by the Governor with geographic representation from the five health planning regions. Commission membership must include broad representation of affected groups including but not limited to: physicians, hospitals, other health care providers, and consumers. The Governor will appoint the chair. Staff of the commission will be exempt positions appointed by the Governor.

EXECUTIVE BUDGET PROPOSED REDUCTIONS FOR AGENCY OPERATING BUDGETS

Natural Resources and Commerce Subcommittee

AGENCY	Cumulative Reductions To Date	Cumulative % Reductions To Date	Executive Budget Proposal Reductions	Executive Budget Proposal Cumulative % Reductions
PSC	(69,985)	-3.25%	0	-3.25%
LIVESTOCK	(33,043)	-3.82%	0	-3.82%
DNRC	(337,412)	-6.59%	(72,212)	-8.00%
STATE LANDS	(707,862)	-7.66%	(31,605)	-8.00%
COMMERCE	(262,109)	-8.86%	0	-8.86%
FISH, WILDLIFE & PARKS	(43,528)	-9.80%	0	-9.80%
AGRICULTURE	(139,328)	-11.91%	0	-11.91%
TOTAL	(1,593,267)	-7.26%	(103,817)	-7.73%

SECTION C

Item C1: **General Fund Reductions to Operating Budgets**

The proposed reductions for natural resource and commerce agencies exempt certain agencies from further reductions in their operating budgets. The PSC is not reduced because the commission's expenditures determine the revenues collected from regulated industries. Therefore, a reduction in expenditures is offset by an identical reduction in general fund revenues.

The Departments of Fish, Wildlife, and Parks, Agriculture, and Commerce are not reduced further because their operating budgets have already been reduced by over 8%.

The Department of Livestock is not reduced. The primary reason is due to the fact that the department is financing, with existing general fund appropriations, an expansion of the Meat and Poultry Inspection Program. This request was approved by the Executive and reviewed by the Legislative Finance Committee. If the department's general fund is reduced then the approved Meat and Poultry Program expansion would have to be cut back or a supplemental approved.

The general fund operating budgets of the Departments Natural Resources and Conservation, and State Lands are reduced by the recommended 8% for all nonexempt agencies. Each agency reduction was determined by a formula that resulted in a net general fund operating reduction of 8% when the general fund operations reductions implemented to date are added together. Providing agency flexibility is granted through adoption of recommended amendments to HB2 boilerplate, these agencies expect to be able to manage further reductions.

Item C2: **Appropriation for Fire Suppression Costs**

Action: Appropriate up to $5,000,000 from the general fund to be held as a contingency in the event of extraordinary fire suppression costs during the remainder of calendar year 1992.

Summary: The Department of State Lands furnishes forest fire protection and suppression services for all state and privately-owned land in Montana. Because the costs of suppressing fires are dependent upon numerous unpredictable factors, the Montana Legislature never has preappropriated funds to pay for fire suppression. The Department of State Lands has expended general fund appropriated for other department programs to pay for fire suppression. When the legislature met in its next regular session, the department would request and receive a supplemental to recoup the fire suppression costs already incurred. In most fiscal years the department has had enough general fund appropriation authority to carry it until the legislature could approve a fire suppression general fund supplemental appropriation. However, in FY89 the department expended more for fire suppression than it had appropriated for operations.

Because of the extremely dry winter and spring, the Executive Budget recommends that it would be prudent to enact legislation which will avert the need to call a Special Session III if the state experiences expensive fire suppression costs during the remainder of calendar year 1992. To avert a potential additional special session, the executive proposes legislation which appropriates up to $5 million from the general fund to the Office of Budget and Program Planning which can only be used to pay documented fire suppression costs incurred by the Department of State Lands which exceed the agency's ability to manage.

The advantages of this approach are two fold:

- There will be a source of funds to address any potential fire suppression costs up to $5 million; and
- The likelihood that Special Session III will be required to pay for fire suppression costs will be lessened.

EXECUTIVE BUDGET PROPOSED REDUCTIONS FOR AGENCY OPERATING BUDGETS

Institutions and Cultural Affairs Subcommittee

AGENCY	Cumulative Reductions To Date	Cumulative % Reductions To Date	Executive Budget Proposal Reductions	Executive Budget Proposal Cumulative % Reductions
CORRECTIONS	(1,565,722)	-2.19%	0	-2.19%
HISTORICAL SOCIETY	(41,703)	-3.08%	(66,585)	-8.00%
ARTS COUNCIL	(7,362)	-5.71%	(2,949)	-8.00%
LIBRARY COMMISSION	(50,206)	-6.27%	(13,870)	-8.00%
TOTAL	(1,664,993)	-2.25%	(83,404)	-2.37%

SECTION D

Item D1: **General Fund Reductions to Operating Budgets**

The Department of Corrections and Human Services is exempt from further operating budget reductions, except for Item D2. The exemption is due to the impact of workers compensation rate increases in all institutional units, rising inmate population, projected legal costs, and the cost of medical care in correctional institutions exceeding budgeted projections.

All other Section D agencies are recommended at the 8% general fund operating budget reduction level consistent with all nonexempt agencies.

Item D2: **Galen Service Improvements**

General Fund Savings: $ 1,563,497

Action: Amend HB2, item 3 on page D-8 reducing FY93 general fund by $1,563,497 and amending language on page D-11 related to item 3. Also amend 53-21-601 (4), MCA. Implementation date is December 1, 1992.

Summary: The 1993 biennium Executive Budget recommended closing Galen for a general fund savings of $6,158,085. The Fifty-second Legislature did not adopt this recommendation and, instead, appointed a Committee on the Montana State Hospital. This committee has studied the matter and, at its May 19th meeting, voted to discontinue the nursing home at Galen.

The Executive Budget recommendation for Special Session II is a scaled-back, modified adjustment which would:

- Move the acute care hospital to the Warm Springs Campus and change the campus license to the infirmary level;
- Close the nursing home program;
- Establish an 87-bed chemical dependency treatment program in the Galen Hospital building; and
- Establish a non-hospital detoxification and orientation program for approximately 24 patients in the Galen Hospital building.

EXECUTIVE BUDGET PROPOSED REDUCTIONS FOR AGENCY OPERATING BUDGETS

Education Subcommittee

AGENCY	Cumulative Reductions To Date	Cumulative % Reductions To Date	Executive Budget Proposal Reductions	Executive Budget Proposal Cumulative % Reductions
BRD OF PUB EDUCATION	(3,782)	-3.15%	0	-3.15%
SCHOOL OF DEAF & BLIND	(115,059)	-4.00%	(57,471)	-6.00%
HIGHER EDUCATION	(3,563,114)	-2.69%	(7,026,890)	-8.00%
O.P.I.	(254,780)	-6.72%	(48,308)	-8.00%
TOTAL	(3,936,735)	-2.83%	(7,132,668)	-7.95%

SECTION E

Item E1: General Fund Reductions to Operating Budgets

The proposed reductions for education exempt the Board of Public Education because defending law suits on school funding and increased hours for a hearings examiner for revocation hearings have created a situation where the board's current appropriation is insufficient to meet current expenses. Through May of this year, the board has held 14 hearings, compared to none in FY91. In the past, the board averaged three revocation hearings a year. The board currently is requesting an appropriation transfer from FY93 to FY92 of $7,702 for: 1) legal costs associated with the two school funding law suits, and 2) hearing examiner costs required for the increased number of teacher license revocation hearings. This transfer reduces the FY93 appropriation by a like amount and further reductions cannot be absorbed by a small 2.00 FTE agency.

The Montana School for the Deaf and the Blind is partially exempt from the full operating budget reductions due to the nature of its services and the inability to substantially increase vacancy savings in a 24-hour residential care facility. The rate of reduction is at 6% when the general fund operating reductions implemented by Special Session I and Special Session II are added together.

The general fund operating budgets for the remaining Section E agencies, OPI, the Commissioner of Higher Education and the units of the Montana University System, are reduced by 8% in accordance with the Executive Budget recommendations for all nonexempt agencies.

OPI appropriations in the 1991 Session contained 2% vacancy savings, which was less than most other agencies, and added $1 million general fund and a 10.50 FTE increase. Therefore, it is assumed OPI will be able to manage this reduction provided agency flexibility to manage is authorized through adoption of HB2 boilerplate recommendations.

The MUS operating budgets are likewise reduced by the recommended 8% for all nonexempt agencies. The original 1993 biennium appropriated level provided a substantial general fund increase

in excess of 21%, including $34.3 million for operating budgets, plus a $10.9 million general fund pay plan allocation, and $61.8 million for construction, maintenance and repair of university system buildings. Montana's three community colleges received $1.6 million more general fund and the vocational-technical centers received a general fund increase of $2.6 million. [Source: The LFA 1993 Biennium Appropriations Report] These substantial increases contrast with most of the rest of the country. The highly reputable Illinois State University study reports regarding FY92, "For the first time in at least 33 years, state governments appropriated **less** money for higher education this year than last....The two year increase (FY91 and FY92) is only 3 per cent." [Source: The Chronicle of Higher Education, November 6, 1991]

Moreover, the National Association of State Budget Officers report for May 1992 advises that 29 states have made additional reductions in appropriations for higher education, with indications that further reductions are likely as more states call special sessions.

Item E2: **Reduce Foundation Program payments 4%**

General Fund Savings: $ 14,100,000

Action: Introduce legislation to reduce the apportionment of state and county equalization aid payments to districts to 96% of the schedule amount.

Summary: This action will reduce the equalization payments to districts for their foundation programs without reducing their budget caps, permissive limits, or GTB payments. Districts will not be allowed to pass this decrease along to their taxpayers through increased mill levies. If any districts are unable to reduce their expenditures by 4% they will have the ability to offset the reduction through the use of their reserves or excess revenues from other nonlevy sources. Nearly all districts have adequate reserves to absorb this reduction if they should choose not to reduce expenditures.

Item E3: **Replace requirement of 20-9-344(6), MCA, for fixed 20% equalization payment on July 14 and 7% monthly thereafter with requirement to pay on an as needed basis to minimize the amount of state equalization aid funds held by the district.**

General Fund Savings: $500,000 (increased interest revenue)

Action: Introduce legislation to replace 20-9-344(6), MCA, with a requirement to reimburse on an as needed basis for the purpose of minimizing the amount of state equalization aid held by districts. Suggested new statute:

"(6) The superintendent of public instruction shall monthly allocate foundation and guaranteed tax base payments to the districts in such a manner as to minimize the amount of state equalization account funds held by districts. In determining the monthly amount, the superintendent will take account of district reserves, cash reappropriated, nonlevy revenue, the proceeds from district mill levies, county equalization revenue, and any other sources of revenue available to the district for financing of its general fund budget and the estimated

expenditures of the district for the month. The total distribution to any district in any month may not exceed the district's entitlement to state equalization aid. In determining the amounts, the superintendent may use estimates based upon receipts and expenditures in the prior year"

Summary: This action will significantly reduce the amount of money paid out of the School Equalization Account (SEA) during the early part of the year. It will reduce the size of the TRANs issue required by $40 million which should make it easier to sell with good rating. It will generate $500,000 additional interest revenue to the SEA because revenues will not be disbursed as quickly and funds can be invested to earn more interest.

There will be a loss of interest revenues to school districts as surpluses which they previously held will be reduced and a small share of this will be reflected in an increased cost of the GTB subsidy. Since the excess funds will be fully invested whether held by the state or the district, it can be reasonably assumed that the loss to districts will equal the gain to the state.

Item E4: MUS Tuition in Excess of Legislative Intent

General Fund Savings: $ 1,598,176

Action: Amend HB2, replacing $1,598,176 of FY93 general fund with a like amount of tuition revenue.

Summary: During Special Session I of the Fifty-second Legislature, the Board of Regents (BOR) was appropriated tuition in the amount of $5,178,760 to reduce the effects of the MUS general fund reductions. At the May BOR meeting, the regents voted to eliminate the "half-steps" which were reflected in the 13th and 14th credit hours on the tuition schedule. The result of this action was an increase in revenue to the six units of $1,351,832. The board also voted to narrow the "flat spots" on the Vocational Technical Centers tuition schedule from 12-18 to 14-18 credits, resulting in $246,344 of additional revenue. The net increase, over and above the amount authorized by the Legislature in Special Session I, resulting from adjusting the half-steps and flat-spots is $1,598,176.

Action on a recommendation before the BOR on June 18-19 to use this unanticipated revenue for additional pay increases in the MUS over and above both the pay plan authorized in HB509 and the $1,321,114 increase already authorized (see Item E5) was deferred pending this session.

The Executive Budget recommendation is to use this unanticipated tuition revenue to replace general fund in FY93.

Item E5: **Reduce General Fund for University Tuition Not Approved By Legislative Finance Committee**

General Fund Savings: $ 3,819,653

Action: Amend HB2, replacing $3,819,653 of FY93 general fund with a like amount of tuition revenue.

Summary: The Legislative Finance Committee (LFC) voted unanimously at its April 7, 1992, meeting that the FY92 Montana University System budget amendments for authority to spend an additional $3,819,653 of student fees and tuition revenue did not meet the statutory budget amendment criteria. At the next Board of Regents (BOR) meeting following the LFC action, the BOR approved the amendments under the authority granted in 17-7-102(4)(f) and 17-7-404(5), MCA.

This unanticipated 1993 biennium revenue was generated by actions of the BOR taken prior to the beginning of FY92, when tuition/fee increases were adopted which, when combined with student FTE increases, generated approximately $10 million. Of this amount,

- $1,321,114 was used for increased FY92 pay over and above HB509 and elimination of vacancy savings imposed by the 1992 regular session;
- $3,819,653 was amended into the FY92 operating budgets of MUS after the April 1992 LFC meeting;
- $1,321,114 remains to be amended into FY93 operating budgets to continue the pay increases already authorized in FY92; and
- The remaining $3,819,653 is available for legislative consideration during Special Session II.

Item E6: **General Fund Payments for Special Education Transportation**

General Fund Savings: $ 700,000

Action: Amend HB2, reducing FY93 general fund for transportation by $700,000 and amending 20-7-442 and 20-10-144(2) (a) (i), MCA.

Summary: State support for Special Education Transportation has nearly doubled for FY92 because of legislative action in the 1991 session and because it appears that school districts have been revising their transportation designations to take full advantage of this statute change. The 1991 session amended 20-7-442 and 20-10-144(2) (a) (i), MCA to read: "The reimbursement shall be calculated from a schedule established by the superintendent of public instruction with the state providing **100%** of the reimbursement." (emphasis added)

Additionally the Administrative Rules of Montana for Special Education, Sub-Chapter 25, Special Education-Transportation, rule 10.16.2503 (1) and (2) state: "(1) For the purposes of

capacity rating the capacity of the bus prior to alteration for special education shall be the capacity used for reimbursement. (2) All special education buses are deemed to have met the student load requirement of the law and are deemed to be **full**." (emphasis added)

The Executive Budget recommendation is for legislation, changing 20-7-442 and 20-10-144(2) (a) (i), MCA, to 50% state and 50% county reimbursement so the rates for special education transportation are the same as for regular transportation reimbursements, generating a savings of approxmitely $700,000 for FY93 and each year thereafter.

SECTION F

Item F1: Postpone Planning for MSU and UM Buildings

General Fund Savings/Revenue: $1,565,000

Action: Amend HB5, deleting the $367,000 general fund appropriation and depositing the remaining $1,198,000 LRBP cash appropriation to the general fund.

Summary: The Fifty-second Legislature authorized two significant new buildings for the Montana University System:

- o Engineering/Physical Sciences Complex at Montana State University

$18,401,510	LRBP Bonds
1,165,290	LRBP Cash (planning)
2,301,200	Private Funds
367,000	General Fund
$22,235,000	Total

- o Business Administration Building at University of Montana

$13,022,975	LRBP Bonds
604,705	LRBP Cash (planning)
1,858,320	Private Funds
$15,486,000	Total

On June 15, the Department of Administration notified MUS that all billable work on these two capital construction projects would be suspended effective June 19, 1992, until further notification subsequent to the conclusion of Special Session II. All other agencies with projects authorized in the bonded program received similar suspension notices.

Taking into account both the downsizing of the student population and the use of telecommunications and remote access of educational offerings, the need for new construction of classroom space becomes less critical. Therefore, the Executive Budget recommendation is deletion of these two projects from HB5 for the current biennium, with reconsideration for future biennia to be brought to the Fifty-third Legislature.

Prior to the suspension of planning activities, approximately $571,995 of the LRBP Cash appropriations were expended in FY92, leaving a balance available for legislative consideration of $1,198,000, plus the general fund appropriation of $367,000, for a total of $1,565,000.

400 copies of this public document were published at an estimated cost of $1.35 per copy, for a total cost of $540.00 which includes $540.00 for printing and $.00 for distribution.